

**STATE OF NEVADA**  
**OFFICE OF THE STATE TREASURER**  
**SECURITIES LENDING POLICY**  
**LOCAL GOVERNMENT INVESTMENT POOL**



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## **I SCOPE**

This policy establishes the guidelines that govern the securities lending program (lending program) administered by the Office of the State Treasurer (State Treasurer). The ability to lend securities from the State of Nevada (State) Local Government Investment Pool's (LGIP) investment portfolio (portfolio) is the responsibility of the State Treasurer, and is authorized by NRS 355.167. This policy applies to the lending of securities from the LGIP portfolio.

## **II PRUDENCE**

The standard of care to be used by investment officials will be the "prudent person" standard and will be applied to the management of the lending program. The securities lending agent (agent) shall:

"Exercise the judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence exercises in the management of his own affairs, not in regard to speculation, but in regard to the investment of his money, considering the probable income as well as the probable safety of his capital."

## **III OBJECTIVE**

The objective of the lending program is to use a conservative investment duration matched management approach to earn incremental income above that already generated from securities within the portfolio, while taking into consideration a) safety, b) liquidity, and c) return on investment.

## **IV DELEGATION OF AUTHORITY**

The State Treasurer is responsible for the investment of LGIP money and the management of the lending program. This responsibility is delegated to the Deputy of Investments (Deputy), who will implement the lending program, establish the guidelines within this policy, and structure internal controls to monitor the investment procedures of the agent.

State auditors may audit the lending program periodically. Upon his discretion, the State Treasurer may also contract with an independent accounting firm to render audit services.

## **V PROGRAM MANAGEMENT**

One or more financial institutions may be selected to act as agents, as stipulated in NRS 226.110 and NRS 284.173, allowing the State to employ the services of specialized and professional personnel. The agent will arrange the terms and conditions of security loans, monitor the market value of the securities lent and the collateral received, and invest the cash received as collateral. The agent will arrange for loans of securities currently in the possession of the State Treasurer's securities custodian, and may direct said custodian to act upon its investment instructions.

The State Treasurer reserves the right to modify or cancel the lending program at his discretion.

## **VI AGENT SELECTION AND CONTRACTUAL AGREEMENT**

The State Treasurer will periodically issue an RFP to qualified members of the financial community which provide securities lending services. The selected agent must demonstrate experience with comparable engagements, experience of staff, the ability to generate securities lending revenue, and the competitiveness of proposed fees and revenue sharing.

The State Board of Examiners must approve a written contractual agreement between the State Treasurer and each agent prior to engaging in securities lending activities. The agreement will authorize the lending of securities, and will outline the responsibilities and liabilities of the agent in connection with the implementation of the lending program. These responsibilities include, but are not limited to:

- a. Monitoring the fair market value of loaned securities on a daily basis.
- b. Monitoring the value of collateral provided by borrowers on a daily basis, which must represent at least 102 percent of the value of the securities borrowed.
- c. Exercising the right and duty to demand additional collateral or the obligation to release collateral as market values fluctuate.
- d. Lending of securities only to borrowers authorized by the State Treasurer, and only to borrowers for which there is a signed Bond Market Association's Master Securities Loan Agreement.
- e. Maintaining complete records of securities lending transactions and earnings to be submitted on a monthly basis to the State Treasurer.
- f. Detailing the agreed upon fee arrangement.

## **VII COLLATERAL**

The State Treasurer will accept the following as collateral:

- a. Cash
- b. United States Treasury or United States government agency securities maturing in 10 years or less.

The borrower must pledge collateral having a value equal to at least 102 percent of the value of the loaned securities plus accrued interest, at the time the loan is initiated. The agent(s) is responsible for marking to market the collateral on a daily basis, and ensuring that the value doesn't fall below 102 percent. If this value drops below this point, the agent must immediately secure additional collateral from the borrower.

## **VIII AUTHORIZED INVESTMENTS FOR CASH COLLATERAL**

The agent is authorized to invest the cash collateral in:

- a. Asset-Backed Securities (ABS)
  - 1. Rating must be "AAA" or it's equivalent.
  - 2. 90 day legal final maturity.
  - 3. Aggregate par value may not exceed 20 percent of total par value of the portfolio.
  - 4. No more than five (5) percent of total par value of the portfolio may be in one (1) issuer.
- b. Bankers' Acceptances
  - 1. Rating must be "A-1", "P-1", or it's equivalent or better.
  - 2. Maximum maturity of 90 days.
  - 3. Aggregate par value may not exceed 20 percent of total par value of the portfolio.
  - 4. No more than five (5) percent of total par value of the portfolio may be in one (1) issuer.
- c. Commercial Paper
  - 1. Rating must be "A-1", "P-1", or it's equivalent or better.
  - 2. Maximum maturity of 90 days.
  - 3. Aggregate par value may not exceed 20 percent of total par value of the portfolio.
  - 4. No more than five (5) percent of total par value of the portfolio may be in one (1) issuer.

d. Corporate Notes

1. Rating must be “A” or it’s equivalent or better.
2. Maximum maturity of 90 days.
3. Aggregate par value may not exceed 20 percent of total par value of the portfolio.
4. No more than five (5) percent of total par value of the portfolio may be in one (1) issuer.
5. If the rating is reduced below the level “A”, the security must be sold as soon as possible.

e. Money Market Mutual Funds

1. Only SEC registered 2(A)7 funds are eligible.
2. Rating must be “AAA” or it’s equivalent.
3. Investments must only be:
  - a) United States Treasury or United States government agency securities.
  - b) Master notes, bank notes or commercial paper rated “A-1”, “P-1” or its equivalent or better, issued by a corporation organized and operating in the United States or by a depository institution licensed by the United States, or any state, and operating in the United States.
  - c) Repurchase Agreements collateralized by the securities in e-3a) and e-3b).

f. Negotiable Certificates of Deposit

1. Issued by commercial banks.
2. Issued by insured savings and loans associations.
3. Issued by insured credit unions.
4. Rating must be “A-1”, “P-1”, or it’s equivalent or better.
5. Maximum maturity of 90 days.
6. Aggregate par value may not exceed 20 percent of total par value of the portfolio.
7. No more than of five (5) percent of total par value of the portfolio may be in one (1) issuer.

g. Repurchase Agreements

1. Executed with a qualified counterparty approved by the State Treasurer.
  - a) Counterparty means a bank which is organized and operating or licensed to operate in the United States under federal or state law or a securities dealer which is a registered broker/dealer, designated by the

- Federal Reserve Bank of New York as a “primary” dealer and in full compliance with all applicable capital requirements.
  2. An executed written Master Repurchase Agreement must be in place.
  3. The limit to one (1) counterparty will be 10 percent of total par value of the portfolio.
  4. The purchased securities will be:
    - a) United States Treasury or United States Government Agency securities
      - (1) Collateralized at 102 percent.
      - (2) Maximum maturity of 10 years.
    - b) Corporate Notes
      - (1) Collateralized at 105 percent.
      - (2) Rating must be “A” or it’s equivalent or better.
      - (3) Maximum maturity of five (5) years.
    - c) Authorized Money Market securities
      - (1) Collateralized at 102 percent.
      - (2) Rating must be “A-1”, “P-1”. Or it’s equivalent or better.
    - d) “AAA” Collateralized Mortgage Obligations
      - (1) United States government agency securities collateralized at 102 percent.
      - (2) Non-United States government agency securities collateralized at 105 percent.
      - (3) Maximum 10 year final legal maturity.
  5. The market value of collateral must be at least 102 percent of the repurchase price, and must be marked to market daily.
  6. Maximum maturity of 90 days.
- h. Student Loan Marketing Association
- a) Maximum maturity of 90 days.
- i. United States Treasury Bills, Notes, and Bonds
1. Maximum maturity of 90 days.
- j. United States Government Agency Securities
1. Federal National Mortgage Association
  2. Federal Home Loan Bank
  3. Federal Farm Credit Bank

4. Federal Home Loan Mortgage Corporation
5. Government National Mortgage Association
6. Maximum maturity of 90 days.

**No more than 40 percent of the total par value of the portfolio will be invested in the combination of negotiable certificates of deposit, commercial paper, and corporate notes.**

## **IX MAXIMUM AVERAGE MATURITY**

The average weighted maturity of cash collateral investment shall not exceed 90 days. For the purpose of calculating the average weighted maturity of permitted investments, maturity shall mean:

- a. One day in the case of money market mutual funds, overnight repurchase agreements, and other instruments that may be liquidated without market loss.
- b. The number of days remaining to the next reset date in the case of floating rate securities.
- c. The number of days remaining until the next put date in the case of securities subject to unconditional and irrevocable puts of the issue to the obligor.
- d. The actual number of days remaining until the maturity date for all other permitted investments.

## **X AUTHORIZED FINANCIAL INSTITUTIONS**

Securities will be lent to creditworthy borrowers that are one of the following:

- a. Registered broker-dealers who are “primary” dealers.
- b. Registered broker-dealers who qualify under SEC Rule 15C3-1, the Uniform Net Capital Rule.
- c. Banks which are organized and operating or licensed to operate in the United States under federal or state law.

Furthermore, borrowers must be:

- a. Approved by the State Treasurer.

All borrowers will execute the Bond Market Association’s Master Securities Loan Agreement.

## **XI      REPORTING**

- a.      The State Treasurer requires the agent to submit a monthly report with the following information:
  - 1.      Securities loan transactions for the month.
  - 2.      Securities currently out on loan by issue.
  - 3.      Any cash collateral currently held.
  - 4.      Outstanding loans by borrower.
  - 5.      A statement of earnings (or losses) on collateral investment transactions for the month.
  
- b.      The State Treasurer requires the agent to submit a quarterly report for presentation to the State Board of Finance with the following information:
  - 1.      Gross and net earnings for the quarter.
  - 2.      Performance for the quarter.